

To Our Stockholders...

We are pleased to enclose your quarterly dividend payment of \$0.31 per share which is payable on February 3, 2025, to stockholders of record on January 15, 2025. This payment represents a dividend yield of 4.56% based on the closing price of our stock as of December 31, 2024, and reflects a 3.3% increase over the cash dividend declared in the same period of last year. If you are participating in the Dividend Reinvestment Plan, your dividends will purchase additional shares of stock.

Net income for the three months and year ended December 31, 2024 was a loss of \$12.7 million and \$160 thousand, respectively. These results are due to the repositioning of our underperforming bond portfolio which resulted in the company incurring a \$20 million loss in the fourth quarter of 2024. This restructuring was executed in conjunction with a capital raise of approximately \$30 million.

Our recent capital raise supports our long-term strategy and repositions our investment portfolio to improve our yield on the portfolio. In our opinion, this action was prudent because our investment portfolio's recent financial performance was adversely impacted by interest rates increasing at the fastest pace in over 40 years. Our portfolio includes US Treasuries, mortgage-backed securities and other safe investments. The rising interest rate environment meant that the rates on those older bonds were very low when compared to the current interest rates, creating a drag on our earnings. We use the analogy of CD holders. When rates went up quickly, we had customers with CDs (certificates of deposit) that had a fixed rate of 1%. When rates moved to 4% many of those customers paid the early exit fee and reinvested the remaining funds at the new 4% rate which helped them increase their earnings on these funds. We are essentially doing the same thing with our bonds. We repositioned less than half of our bond portfolio, which included the lowest earning and longest duration components of the portfolio. The portion of the bond portfolio that we restructured was at an average rate of ~2%. We reinvested those funds at ~5%, more than twice the current rate we were earning, without taking great risk. This resulted in an accounting loss during the fourth quarter. However, in the long-term this is accretive to our income and creates great value for our shareholders.

Total assets as of December 31, 2024 were \$2.317 billion, compared to \$2.201 billion at December 31, 2023. At December 31, 2024, loans receivable were \$1.694 billion, total deposits were \$1.859 billion and stockholders' equity was \$213.5 million.

For the three months ended December 31, 2024, net interest income, on a fully-taxable equivalent basis (fte), totaled \$16.1 million, an increase of \$1.36 million compared to the same period in 2023. A \$110.8 million increase in average interest-earning assets, generated an increase in interest income of \$3.4 million. Interest expense increased \$2.1 million. Net interest margin (fte) for the three months ended December 31, 2024 was 3.04%, compared to 2.93% in the same period of 2023. The tax-equivalent yield on interest-earning assets increased 38 basis points to 5.35% during the three months ended December 31, 2024, compared to the same prior year period, while the cost of interest-bearing liabilities increased 30 basis points to 3.04%.



Net interest income (fte) for the year ended December 31, 2024 totaled \$63.0 million, which was \$200 thousand lower than the same period in 2023. The net interest margin (fte) was 2.91% for the year ended December 31, 2024, as compared to 3.06% for the year ended December 31, 2023.

Other income for the three months ended December 31, 2024, totaled \$2.3 million (excluding the loss on the sale of securities), compared to \$2.1 million for the same period in 2023. For the year ended December 31, 2024, other income totaled \$8.8 million, compared to \$8.3 million for the nine-months ended December 31, 2023 excluding any losses on the sale of securities.

Other expenses totaled \$13.4 million for the three months ended December 31, 2024, an increase of \$2.6 million, compared to the \$10.8 million for the same period of 2023. For the year ended December 31, 2024, other expenses totaled \$48.6 million, compared to \$43.5 million for the same period in 2023, due primarily to an increase in professional fees, data processing costs and FDIC insurance.

Our capital base remains above "Well-Capitalized" targets. Additionally, our credit quality metrics remained strong during the fourth quarter, which we believe should benefit future performance. We appreciate the opportunity to serve our Wayne Bank customers and our customers at the Bank of the Finger Lakes and Bank of Cooperstown locations. We continue to look for opportunities available to us as we service our growing base of stockholders and customers.

Norwood Financial Corp is the parent company of Wayne Bank, which operates from fifteen offices throughout Northeastern Pennsylvania and fifteen offices in Delaware, Sullivan, Ontario, Otsego and Yates Counties, New York. The Company's stock trades on the Nasdaq Global Market under the symbol "NWFL". For over 150 years, Wayne Bank has been a symbol of strength, safety and security for the communities, customers and stockholders we serve. We are very proud to carry on that tradition and truly appreciate the confidence you have placed in us. We value your investment in Norwood, and look forward to serving all your financial needs.

James O. Donnelly
President and Chief Executive Officer

Financial Highlights

(unaudited)

(dollars in thousands, except per share data)

For the Three Months Ended December 31

	2024	2023
Net interest income	\$ 16,625	\$ 15,293
Net income	(12,651)	355
Net interest spread (fte)	2.31%	2.23%
Net interest margin (fte)	3.04%	2.93%
Return on average assets	-2.19%	.06%
Return on average equity	-26.08%	.84%
Return on tangible equity	-30.77%	1.01%
Basic earnings per share	\$ (1.37)	\$ 0.04
Diluted earnings per share	\$ (1.37)	\$ 0.04

For the Twelve Months Ended December 31

	2024	2023
Net interest income	\$ 62,191	\$ 62,067
Net income	(160)	16,759
Net interest spread (fte)	2.17%	2.47%
Net interest margin (fte)	2.91%	3.06%
Return on average assets	-0.01%	.79%
Return on average equity	-0.09%	9.67%
Return on tangible equity	-10.10%	11.66%
Basic earnings per share	\$ (.02)	\$ 2.08
Diluted earnings per share	\$ (.02)	\$ 2.07

As of December 31

Total assets	\$2,317,462	\$2,201,079
Total loans receivable	1,713,638	1,603,618
Allowance for loan losses	19,843	18,968
Total deposits	1,859,163	1,795,159
Stockholders' equity	213,508	181,070
Trust assets under management	205,097	192,374

Book value per share	\$ 23.02	\$ 22.99
Tangible book value per share	19.85	19.36
Equity to total assets	9.21%	8.23%
Allowance to total loans receivable	1.16%	1.18%
Nonperforming loans to total loans	0.46%	0.48%
Nonperforming assets to total assets	0.34%	0.35%



BANK WITH CONFIDENCE.

Quarterly
Report
for Quarter
Ended

December 31,

2024

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Consolidated Balance Sheets (unaudited)

(dollars in thousands, except share data)

	December 31	
	2024	2023
ASSETS		
Cash and due from banks	\$ 27,562	\$ 28,533
Interest-bearing deposits with banks	44,777	37,587
Cash and cash equivalents	72,339	66,120
Securities available for sale	397,846	406,259
Loans receivable	1,713,638	1,603,618
Less: Allowance for credit losses	19,843	18,968
Net loans receivable	1,693,795	1,584,650
Regulatory stock, at cost	13,366	7,318
Bank premises and equipment, net	19,657	17,838
Bank owned life insurance	46,657	46,439
Foreclosed real estate owned	0	97
Accrued interest receivable	8,466	8,123
Deferred tax assets, net	17,696	21,353
Goodwill	29,266	29,266
Other intangible assets	152	221
Other assets	18,222	13,395
TOTAL ASSETS	\$ 2,317,462	\$ 2,201,079
LIABILITIES		
Deposits:		
Non-interest bearing demand	\$ 381,479	\$ 399,545
Interest-bearing	1,477,684	1,395,614
Total deposits	1,859,163	1,795,159
Short-term borrowings	113,069	74,076
Other borrowings	101,793	124,236
Accrued interest payable	12,615	10,510
Other liabilities	17,314	16,028
TOTAL LIABILITIES	\$ 2,103,954	\$ 2,020,009
STOCKHOLDERS' EQUITY		
Preferred Stock, no par value per share, authorized 5,000,000 shares	0	0
Common stock, \$.10 par value per share, authorized: 20,000,000 shares issued: 2024: 9,487,068 shares, 2023: 8,310,847 shares	\$ 949	\$ 831
Surplus	98,513	97,700
Retained earnings	152,964	135,284
Treasury stock, at cost: 2024: 214,161 shares, 2023: 200,690 shares	(5,797)	(5,397)
Accumulated other comprehensive loss	(33,121)	(47,348)
TOTAL STOCKHOLDERS' EQUITY	213,508	181,070
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$ 2,317,462	\$ 2,201,079

Consolidated Statements of Income (unaudited)

(dollars in thousands, except per share data)

	Three Months Ended December 31		Twelve Months Ended December 31	
	2024	2023	2024	2023
INTEREST INCOME				
Loans receivable, including fees	\$ 26,122	\$ 23,328	\$ 99,388	\$ 85,209
Securities	2,789	2,504	10,424	9,922
Other	574	253	2,768	409
Total interest income	29,485	26,085	112,580	95,540
INTEREST EXPENSE				
Deposits	10,984	8,910	42,334	26,029
Short-term borrowings	348	346	1,363	3,048
Other borrowings	1,528	1,536	6,692	4,396
Total interest expense	12,860	10,792	50,389	33,473
NET INTEREST INCOME	16,625	15,293	62,191	62,067
(RELEASE OF) PROVISION FOR CREDIT LOSSES	1,604	6,116	2,673	5,548
NET INTEREST INCOME AFTER (RELEASE OF) PROVISION FOR CREDIT LOSSES	15,021	9,177	59,518	56,519
OTHER INCOME				
Service charges and fees	1,595	1,421	5,959	5,613
Income from fiduciary activities	224	210	943	898
Net realized (losses) gains on sales of securities	(19,962)	0	(19,962)	(209)
Gain on sales of loans, net	50	36	195	63
Gain on sales of foreclosed real estate owned	0	66	32	80
Earnings and proceeds on life insurance policies	275	242	1,056	1,012
Other	159	148	626	667
Total other income	(17,659)	2,123	(11,151)	8,124
OTHER EXPENSES				
Salaries and employee benefits	6,690	5,672	25,018	23,565
Occupancy, furniture and equipment	1,291	1,265	5,049	5,083
Data processing and related operations	1,312	877	4,520	3,342
Taxes, other than income	163	77	615	566
Professional fees	504	544	2,173	1,676
FDIC Insurance assessment	335	287	1,344	985
Foreclosed real estate	9	17	54	129
Amortization of intangibles	15	19	69	85
Other	3,100	2,091	9,783	8,066
Total other expenses	13,419	10,849	48,625	43,497
INCOME BEFORE TAX	(16,057)	451	(258)	21,146
INCOME TAX EXPENSE	(3,406)	96	(98)	4,387
NET INCOME	\$ (12,651)	\$ 355	\$ (160)	\$ 16,759
Basic earnings per share	\$ (1.37)	\$ 0.04	\$ (.02)	\$ 2.08
Diluted earnings per share	\$ (1.37)	\$ 0.04	\$ (.02)	\$ 2.07